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INTRODUCTION

The Office of Internal Audit performed a review of the quality assurance processes currently in place at the Michigan State Disbursement Unit (MiSDU), at request of MiSDU management. Objectives of our review were:

1. To determine if the SDU contractor is reporting accuracy requirements of daily receipt processing as established per agreement with MiSDU management

2. To determine if the process being followed for Quality Assurance sampling by the SDU contractor is adequate.

This audit was limited in scope and nature and was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

SCOPE

The scope of our review included obtaining and reviewing appropriate records and documents, as we considered necessary to satisfy our objectives. We reviewed background information, policies, procedures, and business practices related to the current quality assurance (QA) processes in place at the SDU. We met with and discussed the QA processes with contractor management of the SDU. We recorded the results of our review and discussed these results with State of Michigan SDU management. Audit work was performed primarily between January 10, 2005 and February 25, 2005.

EXECUTIVE SUMMARY

In our opinion, the SDU contractor is currently reporting accuracy requirements of daily receipt processing as established per agreement with MiSDU management. However, we believe that MiSDU management should review the current processes established for

reporting accuracy requirements prior to the implementation of the new SDU contract, and incorporate any changes to these processes with the implementation. It is also our opinion that the process being followed for Quality Assurance sampling by the SDU contractor is adequate, but could be strengthened.

MANAGEMENT RESPONSE

The management of the Office of Child Support and State Disbursement Unit have reviewed all findings and recommendations included in this report. Management indicated in a memorandum dated 6/14/05 that they agreed with finding 1 and 2A-2C and that corrective action had either been implemented or implemented to the extent possible at this point in time. They did not indicate agreement or disagreement with finding 2D but did indicate that some elements of the recommendation were already in place and the recommendation would be discussed further with the new SDU vendor to determine workload impact and value gained.

FINDINGS, COMMENTS AND RECOMMENDATIONS

We provided the following comments and recommendations that should be considered by SDU management to improve the QA processes, daily receipt accuracy reporting, and QA sampling processes, if feasible and cost efficient in the current business environment.

1. QA Process for Electronic Receipts

Electronic receipts are currently not reviewed for accuracy on the day they are received before they are put into the daily receipt stream.

Electronic receipts (EFT, EDI, and Web) do not go through a QA process on the day they are received to ensure accuracy of receipts. These receipt files are merely reviewed for errors in the file format and passed through to the ACCoRD system and into the daily

receipt stream. Electronic receipts are included as potential items to be reviewed in the next day's random Quality Assurance sampling process. However, if errors are found in electronic receipts during the random sampling process, these errors need to be addressed in MiCSES. Waiting to correct errors related to electronic receipts in MiCSES can potentially create additional work and inefficiencies (e.g. communication with employers, research, communications with banks, changing the receipt within MiCSES, waiting for MiCSES programs to be run so the changes take affect, etc.). Some of the additional work and inefficiency could be avoided if the electronic receipts were reviewed for errors before entering them into the daily receipt stream.

WE RECOMMEND that SDU management work with the incoming SDU contractor (Tier Technologies, Inc.) to implement a process in which electronic receipts are reviewed for accuracy before they are put into the daily receipt stream.

2. QA Sampling and Reporting Accuracy

There are several factors in the current sampling process that may hinder the reliability of the daily percent of accuracy reported to the State:

a. Per established contractor quality assurance procedures agreed upon by the State, the contractor should draw a randomly selected minimum of 1.25% of transactions for its daily QA sample. Upon review, the contractor did not consistently pull a minimum of 1.25% of all daily receipt transactions to include in their QA sample as reflected in their procedures. We reviewed QA samples for 15 days (5 from October 2004, 5 from November 2004, and 5 from December 2004). On 7 of the 15 days reviewed (46.7%), the contractor did not pull a minimum of 1.25% of transactions for their QA sample. If the 1.25% figure continues to be used for sampling (see item 2B below), SDU management should

be provided some assurance by the contractor that the minimum number of sample items are being drawn daily.

b. Error rates calculated from the QA sample are reported to SDU Management and extrapolated to the entire day's receipt population to determine a percent of accuracy for processing for the entire day's receipts. Currently the contractor pulls a randomly selected minimum of 1.25% of transactions for its QA sample (see item 2A above). Drawing a statistical sample would help to increase the confidence level and reliance that the percent of accuracy calculated from the QA sample accurately reflects the percent of accuracy for the entire day's receipt population. A sample population that is too small leads to decreased reliance that the percent of accuracy as reported for the entire day's receipt population is truly reflective of the entire population. There are software packages available that can determine a statistically accurate sample.

c. Reports provided to the State do not reflect a percentage of errors found in comparison to the number of records sampled, but reflect the percentage of transaction field errors found in comparison to the total transaction fields tested. In our opinion an error found in one field of a record should result in the entire record being counted in error, as that error affects the entire record being processed accurately. Reporting to the State should reflect the percentage of errors found in comparison to the number of records sampled, and not the number of transaction fields sampled. The contractor may wish to continue to track the number of transaction field errors found in comparison to the total transaction fields tested for internal purposes (e.g. additional training, follow-up with staff committing errors, etc.).

d. Errors found related to inaccurate payor information are ignored in the percent of accuracy calculation reported to the State, as these are not errors committed by contractor staff, but are errors in the information sent in by the payor/employer. Errors in inaccurate payor information may include errors in payor name, case number, SSN or other fields submitted by the payor/employer. While we agree that it is appropriate that employer submitted errors not be included in the percent of accuracy for processing figures submitted to the State, the contractor should track the errors submitted by employers and communicate these errors to the employer for correction.

WE RECOMMEND that SDU management evaluate the factors in the current sampling and reporting processes noted in this audit that might hinder the reliability of the daily percent of accuracy reported to the State. Management should determine if there might be alternate methods to help ensure the reliability of reporting the percent of accuracy for daily processing.

WE ALSO RECOMMEND that SDU management be involved in determining the QA processes and methods of reporting accuracy of processing to be followed by the new SDU contractor. The processes to be followed and reporting requirements should be documented and agreed upon prior to implementation of the new SDU contract.